RETIREMENT FUND, SOCIAL SECURITY AND FAMILY SUPPORT: THEIR ROLES IN PERSONAL FINANCIAL PLANNING

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Opening Paragraph

On 8 February 2013, Mr Ooi was looking out of the window in a small office room in a community hall, thinking long and hard on how he could devise a viable financial plan for En Ahmad in order to alleviate his strained financial situations. Mr Ooi was a licensed financial advisor. He had been voluntarily providing his service at the community hall in Jitra under a community movement initiated with the aim at helping people live a financially condifent life as the people there lack financial literacy and the financial world was too complex for them to shoulder without the help from professional financial advisors. On that day Mr Ooi had met En Ahmad, accompanied by his elder brother En Amran, for the third time. After the meeting, he had a comprehensive picture of En Ahmad's predicament after En Ahmad, with the assistance of his elder brother En Amran, had truthfully disclosed his financial situations. By now Mr Ooi could work out a financial plan for En Ahmad darwing upon the funds available from three sources, namely the savings with retirement fund management organization, the financial aids provided by social security organization and family support, to lessen his financial burden.

Profil of En Ahmad

En Ahmad came from a small family. Both his parents had passed away. He had a brother, En Amran, who was two years older than him, from whom En Ahmad could always seek refuge whenever he needed him.

En Ahmad, aged 48, was married with a wife and two children. He did not receive high education and had started working at the age of 19 years. As an odd-jobber, he did not earn much but only sufficient to feed himself. Later, he met Cik Jamilah who worked as a sales assistant at a shopping mall in Jitra. They got married in 1995 when En Ahmad was aged 30 years. They had their first child, a baby boy, in the following year. Two years later, they had their second child, also a baby boy. When En Ahmad's responsibility towards his family was getting heavier, he managed to secure a job of security officer with a private security firm, Security Force Sdn. Bhd., at the beginning of year 1998.

Security Force Sdn. Bhd. was in guard business providing security services to other organizations needing such services. Therefore, En Ahmad had been posted at different sites around Alor Setar and Jitra at organizations which had contracted his firm's security services. Being a security officer, En Ahmad's main job functions comprised the following:

- to ensure maximum security at customer sites;
- to prevent theft, burglary or robbery;
- to screen visitors, staff, suppliers or contractors, and to control vehicles at entry/exit points;
- to prevent fire and to detect other risks that could be harmful at customer sites; and
- to detect accidents and other incidents (such as those caused by leaking pipes, flood, overflowing tanks, pressure valves, etc.), and to take counter measures to manage the situations.

Security Force Sdn. Bhd. had diligently met its legal obligations by ensuring that the contributions for Employees Provident Fund (EPF) and Social Security Organization (SOCSO) of its employees were in order. Therefore, these two statutory employee benefits were being extended to En Ahmad straight away when he joined Security Force Sdn. Bhd. as he was an existing member of EPF and SOCSO. (Refer to Exhibit-1 and Exhibit-2 for the benefits provided by EPF and SOCSO respectively.)

En Ahmad and his family had been living happily and peacefully since he had a permanent job. Their standard of living had improved significantly when En Ahmad could bring home a stable stream of income. Considering his financial conditions had improved, in January 2006, he had taken up a mortgage amounting RM90,000 with ABIM Bank for a 10-year tenure at 6% p.a. to buy a single storey terrace house in Jitra to ensure that his family had a comfortable shelter. This was a great achievement for En Ahmad as it was the first time he had managed to own a valuable asset in his life. En Ahmad was registered as the owner of the property and it was charged as collateral for the housing loan. Four years later, in September 2010, En Ahmad owned a car through hire purchase at RM23,000 for three years at 3% p.a., again with ABIM Bank. Owning these two assets of course came along with the financial commitments that En Ahmad had to keep up with every month. For the house, the monthly housing loan installment was RM1,000. For the car, the hire purchase required him to pay back RM700 per month. In addition to the above two financial commitments, En Ahmad had to repay RM350 per month to service a personal loan of RM7,650 (for 2 years at 4.9% p.a.) with ABIM Bank which he had taken up last year in March to renovate the kitchen areas of his house.

Everything was perfect until the fateful Sunday evening on 15 April 2012 that a 'disaster' had stricken the comfort life of En Ahmad's family. En Ahmad was involved in a car accident on his way home after attending the wedding reception of his nephew. It was raining heavily at the time when the accident took place and En Ahmad's car had skidded off its path and hit the road divider before it came to a halt. En Ahmad sustained severe head injuries. His skull was fractured and the magnetic resonance imaging (MRI) on his brain showed that there were massive built up of lesions at the right parts of his auditory cortex subsequent to the physical trauma of the collision. Six months later, En Ahmad was diagnosed to suffer from sudden bilateral sensorineural hearing loss (SNHL), and eventually he had totally lost his hearing ability and became totally deaf.

En Ahmad's hearing disability greatly affected his job and he was forced into resignation by Security Force Sdn. Bhd. due to his incapacitation to work at the beginning of year 2013. En Ahmad was devastated when he had to give up his job at the age of 48 with a firm which he had worked for 15 years. With his limited experience and education, compounded by his hearing impairment, he did not know how he would secure any other employments. He started to extremely worry about the financial security of his family, first and foremost on household expenditures as he had two school going children and a wife to care for, and secondly on how he was going to keep up with his three monthly loan repayment commitments. As at 31 January 2013, En Ahmad still had outstanding loan amounts of RM31,923.14, RM4,900 and RM4,550 respectively for his mortgage, hire purchase and personal loan.

Feeling distraught and totally out of mind on how he was going to cope with the financial disaster befell him (and his family), En Ahmad accompanied by his elder brother En Amran had come to the community hall to meet Mr Ooi for consultations. En Ahmad was hopeful that by drawing on the expertise of a professional financial advisor, Mr Ooi could help him to ease his distressed financial situations.

Concluding Paragraph

Mr Ooi moved his eyes from the window to look at the notes on his desk. After meetings En Ahmad for three times, he had managed to collect the necessary information. To ease his reference, Mr Ooi gathered the information he obtained from the just concluded meeting in a more organized manner: En Ahmad's brother (En Amran) was ready to help him, his last drawn monthly salary from Security Force Sdn. Bhd. was RM2,600, he had been dutifully contributing to SOCSO for the past 15 years without fail, and his EPF account balance had RM184,016.89 as at 31 December 2012. By putting together this information with those gathered in the past two meetings, Mr Ooi was now able to come up with a financial plan for En Ahmad in trying to lighten his burdensome financial situations.

EXHIBITS

Exhibit-1: Employees Provident Fund (EPF)

EPF is a retirement fund management organization formed according to EPF Act 1991. It administers the retirement funds of its members through managing their savings in an efficient and reliable manner, and at the same time it provides a convenient platform for employers to meet their statutory and moral obligations to their employees. The EPF laws require individuals up to the age of 75 years who are employees from private and non-pensionable public sectors (regardless of their employment status) and those who have opted to contribute to become EPF members. This is to ensure that they have financial security in the form of retirement savings when they retire or when they are no longer employed.

The members' EPF savings are mandatory savings meant for their retirement. The savings comprise the employee's and employer's shares of contributions plus yearly dividends. The members' EPF account is divided into two accounts:

(a) Account-1 holds 70% of the members' savings which can only be withdrawn upon reaching retirement age (retirement withdrawal); and

(b) Account-2 holds the remaining 30% of the members' savings from which they can make pre-retirement withdrawals aiming at enhancing their retirement well-being.

The various types of withdrawal facilities provided by EPF for its members are listed below.

Withdrawal facilities from Account-1 and Account-2:

(1) Age 55 years withdrawal allows EPF members to withdraw all of their savings upon attaining 55 years of age to provide financial support during their retirement period.

(2) Incapacitation withdrawal allows EPF members to withdraw all of their savings when they have been confirmed by a doctor who has examined them to become physically or

mentally incapacitated to work, having achieved the level of Maximum Medical Rehabilitation (MMI) to work.

Apart from incapacitation withdrawal, the members are entitled to receive an additional payment of disability benefit amounting RM5,000 from EPF (which derived from EPF's investment revenues, not from members' savings) as a gesture of compassion provided that the withdrawal is made within one year from the date the members have lost their employment due to their disability, and the disabled members have not reached the age of 55 years.

(3) Death withdrawal allows the nominees, administrators or next-of-kin to withdraw all of the deceased members' EPF savings upon their death.

Apart from death withdrawal, the members' beneficiaries are entitled to receive an additional payment of death benefit amounting RM2,500 from EPF (which derived from EPF's investment revenues, not from members' savings) as a gesture of compassion provided that the withdrawal is made within six months from the date of passing, and the deceased members have not reached the age of 55 years.

(4) Leaving country withdrawal allows EPF members who are citizens and permanent residents of Malaysia that have renounced their citizenship in order to migrate to another country, or EPF members who are foreign citizens that have ceased to be employed in Malaysia and wish to return to their country of origin, to withdraw all of their savings.

(5) Pensionable employees withdrawal and optional retirement withdrawal allow members still having EPF savings who are civil servants under pension scheme and those who have opted for early retirement to withdraw the employee's share of contributions (made for the periods when it was compulsory for them to contribute to EPF while in Public Service) including dividends, whereby the employer's (government) share of contributions are to be returned to Retirement Fund Incorporated.

Withdrawal facility from Account-1:

(6) Withdrawal for investment allows EPF members to transfer a portion of their Account-1 savings for investments aiming at increasing their retirement savings.

Withdrawal facilities from Account-2:

(7) Age 50 years withdrawal allows EPF members to withdraw their Account-2 savings upon reaching the age of 50 years to assist them to start preparing for retirement.

(8) Education withdrawal allows EPF members to withdraw their Account-2 savings to finance the costs of their education or their children's education at an institution of higher learning locally or abroad.

(9) Health withdrawal allows EPF members to withdraw their Account-2 savings to pay for medical expenses incurred for the treatment of critical illnesses and/or to buy medical aid equipments for themselves or for their family members.

(10) Withdrawal to purchase / build a house allows EPF members to withdraw their Account-2 savings to finance the purchase or building of a house.

(11) Withdrawal to reduce / redeem housing loan allows EPF members to withdraw their Account-2 savings to reduce or redeem their housing loan balance with approved financial institutions.

(12) Housing loan monthly installment withdrawal allows EPF members to withdraw their Account-2 savings to pay for their housing loan monthly installments taken for the purpose of buying or building a house.

(13) Flexible housing withdrawal allows EPF members to set aside a part of their Account-2 savings into flexible housing withdrawal account to enable them to obtain a higher housing loan amount to purchase or build a house.

(14) Withdrawal of savings in excess of RM1 million allows EPF members to withdraw their excess savings for an amount not less than RM50,000 when they have a total savings of at least RM1.05 million (because RM1 million is considered adequate to finance basic retirement needs). The amount is to be taken from Account-2 but if it is insufficient, the balance will be taken from Account-1.

Exhibit-2: Social Security Organization (SOCSO)

SOCSO was established in 1971 under the Ministry of Human Resources to implement and administer the social security schemes, namely employment injury scheme and invalidity scheme, under Employees' Social Security Act 1969. SOCSO provides coverage for employees who are citizens and permanent residents of Malaysia earning monthly wages of RM3,000 or less regardless of their employment status (including temporary, part-time and probationary employees).

SOCSO's employment injury scheme provides protection to insured employees who suffer from employment injury caused by an accident or occupational disease during the course of and arising out of their employment at workplace. For insured employees to be eligible for the benefits provided under employment injury scheme, the employers shall report the accidents and submit the claim form and other relevant documents to SOCSO within 48 hours upon notification of the accidents that have happened to their insured employees.

The benefits provided under employment injury scheme comprise the following:

(1) Medical benefit provides free medical treatment for insured employees at SOCSO's panel clinics, or government clinics / hospitals.

(2) Temporary disablement benefit for the period when the insured employees are on medical leave for not less than four days including the day of accident.

(3) Permanent disablement benefit for insured employees who suffer from permanent disability. The benefit payments will start after the last day of the insured employees' temporary disablement.

(4) Constant-attendance allowance for insured employees suffering from total permanent disablement who require constant personal attendance of another person.

(5) Free access to facilities for physical and vocational rehabilitation for insured employees who suffer from permanent disablement.

(6) Return to work program helps the insured employees with injuries or diseases, as soon as they are medically possible or when maximum medical improvement is achieved, by providing them the opportunities to safe and productive work activities to ensure that they can safely return to work as early as possible.

(7) Dependants' benefit for eligible dependants if the insured employees die as a result of employment injury.

(8) Funeral benefit for eligible dependants to pay the expenditures incurred for the funeral arrangement of the insured employees who have died as a result of employment injury, or while the insured employees are in receipt of disablement benefit.

(9) Education benefit in the form of scholarship or loan for eligible dependants of the insured employees meant to bear the necessary costs of their education.

SOCSO's invalidity scheme provides 24-hour coverage to insured employees who suffer from invalidity or death due to causes not related to their employment. The insured employees are considered to suffer from invalidity when they experience a specific morbid condition of permanent nature that is incurable or unlikely to be cured, resulting in the insured employees no longer capable of earning, by work corresponding to their strength and physical ability, at least one-third (1/3) of the customary earnings of a normal and sound employee, which ultimately has caused a loss of income to the insured employees.

The benefits provided under invalidity scheme comprise the following:

(1) Invalidity pension is payable to insured employees who have been certified invalid due to any circumstances not relating to work such as contracting chronic diseases like heart attack, kidney failure, cancer, mental illness, asthma and so forth.

(2) Invalidity grant is payable to insured employees certified to be invalid who are not eligible for invalidity pension due to the failure of them in fulfilling the qualifying conditions for invalidity pension.

(3) Constant-attendance allowance is payable to insured employees who suffer from invalidity and are in severely incapacitated situations that require constant personal attendance of another person.

(4) Survivors' pension is payable to eligible dependants of the insured employees who have died irrespective of the cause of death.

(5) Funeral benefit for eligible dependants to pay the expenditures incurred for the funeral arrangement of the insured employees who have died irrespective of the cause of death.

(6) Free facilities for physical or vocational rehabilitation and dialysis for insured employees who have permanent disabilities.

(7) Return to work program for insured employees who are invalid to ensure that they can return to work early and safely, by providing them the opportunities to safe and productive work activities, as soon as they are medically possible or when maximum medical improvement is achieved.

(8) Education benefit in the form of scholarship or loan for eligible dependants of the insured employees meant to bear the necessary costs of their education.

To be eligible for the benefits provided under invalidity scheme, the insured employees must fulfill the conditions imposed on age and the number of required monthly contributions made in the past:

(1) Qualifying age conditions require the insured employees to fulfill the following two conditions:

(a) The insured employees must have started contributing for invalidity scheme before the age of 55 years.

(b) The insured employees must be below 60 years of age to be entitled to receive invalidity pension or survivors' pension.

(2) Qualifying contribution conditions require the insured employees to have contributed for at least 24 months in either of the following manners:

(a) For (full) qualifying contribution condition that will entitle the insured employees to receive a full pension rate in between 50% and 65% of their assumed average monthly wage (subject to a minimum of RM475 per month and a maximum of RM1,917.55 per month), the 24 monthly contributions must have been paid by them

(i) within a period of 40 consecutive months immediately preceding the month their invalidity notice is received by SOCSO, or the month of their death; or

(ii) for not less than two-thirds (2/3) of the complete months from when the contribution was first become payable to the month their invalidity notice is received by SOCSO, or the month of their death.

(b) For (reduced) qualifying contribution condition that will entitle the insured employees to receive a reduced pension rate at 50% of their assumed average monthly wage (subject to a minimum of RM475 per month), the 24 monthly contributions must have been paid by them for not less than one-third (1/3) of the complete months from when the contribution was first become payable to the month their invalidity notice is received by SOCSO, or the month of their death.

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